

CITY OF HOLSTEIN
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2007

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CITY OF HOLSTEIN

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------------|------------------------|---------------------|
| Mary Gross | Mayor | January 2008 |
| John Fell (resigned July, 2006) | Council Member | January 2008 |
| Ken Brell (appointed August, 2006) | Council Member | November 2007 |
| Dennis Breyfogle | Council Member | January 2008 |
| Fred Lukins | Council Member | January 2008 |
| Dan Ehler | Council Member | January 2010 |
| Tom Kofmehl | Council Member | January 2010 |
| Mark A. Baker | Administrator/Clerk | Indefinite |
| Marlo Schoer | Deputy Clerk/Treasurer | Indefinite |
| Thad Cosgrove | Attorney | Indefinite |

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Holstein, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Holstein, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2006, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Holstein, as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2008, on our consideration of City of Holstein's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 18 and 19 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

City of Holstein, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Holstein's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

June 24, 2008

Hungelman, Putzier & Co.

CITY OF HOLSTEIN
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit A

| | Disbursements | Program Receipts | | | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|------------------------------------------|---------------|------------------------|----------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------|--------------|
| | | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions, and Restricted Interest | Governmental Activities | Business Type Activities | Total |
| Functions/Programs: | | | | | | | |
| Governmental activities: | | | | | | | |
| Public safety | \$ 185,897 | \$ 43,889 | \$ 9,268 | \$ - | \$ (132,740) | \$ - | \$ (132,740) |
| Public works | 321,325 | 127,962 | 126,051 | - | (67,312) | - | (67,312) |
| Culture and recreation | 237,862 | 110,108 | 55,370 | - | (72,384) | - | (72,384) |
| Community and economic development | 410,687 | - | - | - | (410,687) | - | (410,687) |
| General government | 83,641 | 757 | - | - | (82,884) | - | (82,884) |
| Debt service | 193,991 | - | - | - | (193,991) | - | (193,991) |
| Capital projects | 3,850 | - | - | 80,545 | 76,695 | - | 76,695 |
| Total governmental activities | 1,437,253 | 282,716 | 190,689 | 80,545 | (883,303) | - | (883,303) |
| Business type activities: | | | | | | | |
| Water | 189,200 | 147,716 | - | - | - | (41,484) | (41,484) |
| Sewer | 94,820 | 159,686 | - | - | - | 64,866 | 64,866 |
| Total business type activities | 284,020 | 307,402 | - | - | - | 23,382 | 23,382 |
| Total | \$ 1,721,273 | \$ 590,118 | \$ 190,689 | \$ 80,545 | (883,303) | 23,382 | (859,921) |
| General Receipts: | | | | | | | |
| Property tax levied for: | | | | | | | |
| General purposes | | | | | 388,713 | - | 388,713 |
| Tax increment financing | | | | | 25,784 | - | 25,784 |
| Utility excise replacement tax | | | | | 11,105 | - | 11,105 |
| Cable TV franchise fees | | | | | 7,912 | - | 7,912 |
| Special assessments | | | | | 2,648 | - | 2,648 |
| Unrestricted interest on investments | | | | | 34,545 | 8,122 | 42,667 |
| Loan proceeds | | | | | 370,000 | - | 370,000 |
| Miscellaneous | | | | | 4,747 | - | 4,747 |
| Transfers | | | | | 106,836 | (106,836) | - |
| Total general receipts and transfers | | | | | 952,290 | (98,714) | 853,576 |
| Change in cash basis net assets | | | | | 68,987 | (75,332) | (6,345) |
| Cash basis net assets beginning of year, | | | | | 1,057,790 | 177,357 | 1,235,147 |
| Cash basis net assets end of year | | | | | \$ 1,126,777 | \$ 102,025 | \$ 1,228,802 |

(Continued)

CITY OF HOLSTEIN
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit A
(Continued)

| | Program Receipts | | | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|-----------------------------|------------------|----------------------------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------|--------------------------------|---------------------|
| | Charges for | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions, and Restricted Interest | Governmental Activities | Business Type Activities | Total |
| <u>Disbursements</u> | <u>Service</u> | | | | | |
| Cash Basis Net Assets | | | | | | |
| Restricted: | | | | | | |
| Streets | | | | \$ 27,942 | \$ - | \$ 27,942 |
| Tax increment purposes | | | | 60,040 | - | 60,040 |
| Debt service | | | | 24,568 | - | 24,568 |
| Other purposes | | | | 604,016 | - | 604,016 |
| Unrestricted | | | | 410,211 | 102,025 | 512,236 |
| Total cash basis net assets | | | | <u>\$ 1,126,777</u> | <u>\$ 102,025</u> | <u>\$ 1,228,802</u> |

See notes to financial statements.

CITY OF HOLSTEIN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit B

| | Special Revenue | | | | | | | | |
|-------------------------------------------------------|-----------------|-------------|------------------|-----------------|-------------------------------|-----------------|---------------------|------------|-------------|
| | General | Road Use | Urban Renewal | Lohff Estate | Stubbs Memorial Library | Debt Service | Capital Projects | Nonmajor | Total |
| Receipts: | | | | | | | | | |
| Property tax | \$ 290,079 | \$ - | \$ - | \$ - | \$ - | \$ 27,646 | \$ - | \$ 70,988 | \$ 388,713 |
| Tax increment financing | - | - | 25,784 | - | - | - | - | - | 25,784 |
| Other city tax | 14,255 | - | - | - | - | 767 | - | 2,036 | 17,058 |
| Licenses and permits | 2,336 | - | - | - | - | - | - | - | 2,336 |
| Use of money and property | 12,489 | - | - | 4,022 | 16,891 | - | - | 550 | 33,952 |
| Intergovernmental | 14,109 | 122,517 | - | - | - | - | - | - | 136,626 |
| Charges for service | 281,291 | - | - | - | - | - | - | - | 281,291 |
| Special assessments | 2,649 | - | - | - | - | - | - | - | 2,649 |
| Miscellaneous | 8,949 | - | 602 | - | 1,927 | - | 80,545 | 48,972 | 140,995 |
| Total receipts | 626,157 | 122,517 | 26,386 | 4,022 | 18,818 | 28,413 | 80,545 | 122,546 | 1,029,404 |
| Disbursements: | | | | | | | | | |
| Operating: | | | | | | | | | |
| Public safety | 185,897 | - | - | - | - | - | - | - | 185,897 |
| Public works | 174,123 | 129,988 | - | - | - | - | - | 17,214 | 321,325 |
| Culture and recreation | 216,529 | - | - | - | - | - | - | 21,333 | 237,862 |
| Community and economic development | - | - | 410,687 | - | - | - | - | - | 410,687 |
| General government | 77,126 | - | - | - | - | - | - | 6,515 | 83,641 |
| Debt service | - | - | - | - | - | 193,991 | - | - | 193,991 |
| Capital projects | - | - | - | - | - | - | 3,850 | - | 3,850 |
| Total disbursements | 653,675 | 129,988 | 410,687 | - | - | 193,991 | 3,850 | 45,062 | 1,437,253 |
| Excess (deficiency) of receipts over disbursements | (27,518) | (7,471) | (384,301) | 4,022 | 18,818 | (165,578) | 76,695 | 77,484 | (407,849) |
| Other financing sources (uses): | | | | | | | | | |
| Loan proceeds | - | - | 370,000 | - | - | - | - | - | 370,000 |
| Transfers in | 52,806 | - | - | - | - | 159,281 | - | - | 212,087 |
| Transfers out | - | - | (52,445) | - | (14,460) | - | - | (38,346) | (105,251) |
| Total other financing sources (uses) | 52,806 | - | 317,555 | - | (14,460) | 159,281 | - | (38,346) | 476,836 |
| Net change in cash balances | 25,288 | (7,471) | (66,746) | 4,022 | 4,358 | (6,297) | 76,695 | 39,138 | 68,987 |
| Cash balances beginning of year | 297,619 | 35,413 | 126,786 | 146,121 | 307,655 | 30,865 | 10,609 | 102,722 | 1,057,790 |
| Cash balances end of year | \$ 322,907 | \$ 27,942 | \$ 60,040 | \$ 150,143 | \$ 312,013 | \$ 24,568 | \$ 87,304 | \$ 141,860 | \$1,126,777 |

(Continued)

CITY OF HOLSTEIN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit B
(Continued)

| | Special Revenue | | | | | | | | |
|--------------------------------|-----------------|-----------------|----------------------|---------------------|--------------------------------|---------------------|-------------------------|-----------------|--------------|
| | <u>General</u> | <u>Road Use</u> | <u>Urban Renewal</u> | <u>Lohff Estate</u> | <u>Stubbs Memorial Library</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Nonmajor</u> | <u>Total</u> |
| Cash Basis Fund Balances | | | | | | | | | |
| Unreserved: | | | | | | | | | |
| General fund | \$ 322,907 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 141,860 | \$ 322,907 |
| Special revenue funds | - | 27,942 | 60,040 | 150,143 | 312,013 | - | - | - | 691,998 |
| Debt service | - | - | - | - | - | 24,568 | - | - | 24,568 |
| Capital projects fund | - | - | - | - | - | - | 87,304 | - | 87,304 |
| Total cash basis fund balances | \$ 322,907 | \$ 27,942 | \$ 60,040 | \$ 150,143 | \$ 312,013 | \$ 24,568 | \$ 87,304 | \$ 141,860 | \$1,126,777 |

See notes to financial statements.

CITY OF HOLSTEIN
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Exhibit C

| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|---------------------------------------------------------------------------|--------------------|-------------------|-------------------|
| Operating receipts: | | | |
| Charges for service | \$ 142,956 | \$ 159,421 | \$ 302,377 |
| Miscellaneous | <u>4,760</u> | <u>265</u> | <u>5,025</u> |
| Total operating receipts | 147,716 | 159,686 | 307,402 |
| Operating disbursements: | | | |
| Business type activities | <u>189,200</u> | <u>94,820</u> | <u>284,020</u> |
| Excess (deficiency) of operating receipts over operating disbursements | (41,484) | 64,866 | 23,382 |
| Non-operating receipts: | | | |
| Interest on investments | <u>2,397</u> | <u>5,725</u> | <u>8,122</u> |
| Excess (deficiency) of receipts over disbursements | (39,087) | 70,591 | 31,504 |
| Operating transfers out | <u>(31,716)</u> | <u>(75,120)</u> | <u>(106,836)</u> |
| Net change in cash balances | (70,803) | (4,529) | (75,332) |
| Cash balances beginning of year | <u>60,469</u> | <u>116,888</u> | <u>177,357</u> |
| Cash balances end of year | <u>\$ (10,334)</u> | <u>\$ 112,359</u> | <u>\$ 102,025</u> |
| Cash Basis Fund Balances | | | |
| Unreserved | <u>\$ (10,334)</u> | <u>\$ 112,359</u> | <u>\$ 102,025</u> |

See notes to financial statements.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

City of Holstein is a political subdivision of the State of Iowa located in Ida County. It was first incorporated in 1882 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government. The City also provides water and sewer services for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Holstein has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on, the City. The City of Holstein has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of or appoint members to: Ida County Assessor's Conference Board, Ida County Public Safety and Communications Commission, Joint County/Municipal Disaster Services, Emergency Planning Administration, and Ida County Landfill Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Basis of Presentation - (Continued)

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants, contributions, and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Fund is used to account for projects financed by tax increment financing.

The Lohff Estate Fund is used to fund capital improvements and major repairs to the community center.

The Stubbs Memorial Library fund is used to pay for capital related disbursements for the library.

The Debt Service Fund is used to account for the payment of principal and interest on the City's general long-term debt.

The Capital Projects fund is used to account for the acquisition or construction of major capital facilities and capital assets.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus and Basis of Accounting

City of Holstein maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works, culture and recreation, and community and economic development functions.

2. CASH

The City's deposits in banks at June 30, 2007, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

The City had no investments meeting the disclosure requirements of Governmental Auditing Standards Board Statement Number 3, as amended by Statement No. 40.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

3. NOTES AND BONDS PAYABLE

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

| Year Ending June 30, | <u>General Obligation Notes</u> | | <u>Sewer Revenue Bonds</u> | | <u>Total</u> | |
|-------------------------|---------------------------------|-------------------|----------------------------|-------------------|--------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2008 | \$ 143,000 | \$ 59,049 | \$ 50,000 | \$ 23,337 | \$ 193,000 | \$ 82,386 |
| 2009 | 144,000 | 57,998 | 50,000 | 17,850 | 194,000 | 75,848 |
| 2010 | 145,000 | 51,433 | 55,000 | 16,275 | 200,000 | 67,708 |
| 2011 | 131,000 | 44,645 | 55,000 | 14,625 | 186,000 | 59,270 |
| 2012 | 137,000 | 38,480 | 60,000 | 12,900 | 197,000 | 51,380 |
| 2013-2017 | 580,000 | 96,641 | 330,000 | 36,000 | 910,000 | 132,641 |
| 2018 | <u>60,000</u> | <u>2,430</u> | <u>70,000</u> | <u>1,050</u> | <u>130,000</u> | <u>3,480</u> |
| | <u>\$1,340,000</u> | <u>\$ 350,676</u> | <u>\$ 670,000</u> | <u>\$ 122,037</u> | <u>\$2,010,000</u> | <u>\$ 472,713</u> |

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- a. The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate sewer revenue sinking account for the purpose of making the bond principal and interest payments when due.
- c. Additional monthly transfers shall be made to a separate sewer reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of making bond principal and interest payments when insufficient money is available in the sinking account.

The City has not established the sinking or reserve accounts required by the sewer revenue bond resolution.

4. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2007, was \$13,876, equal to the required contribution for the year.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

5. COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|-----------------|
| Vacation | <u>\$11,191</u> |

This liability has been computed based on rates of pay in effect at June 30, 2007.

6. INTER-FUND TRANSFERS

The detail of inter-fund transfers for the year ended June 30, 2007, is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|-------------------------|-------------------|
| General | Special Revenue: | |
| | Emergency Fund | \$ 38,346 |
| | Stubbs Memorial Library | 14,460 |
| Debt Service | Special Revenue: | |
| | Urban Renewal | 52,445 |
| | Enterprise: | |
| | Water | 31,716 |
| | Sewer | <u>75,120</u> |
| | | <u>\$ 212,087</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

7. BUDGET OVEREXPENDITURE

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2007, the disbursements in the public works, culture and recreation, and community and economic development functions exceeded the amounts budgeted.

8. RISK MANAGEMENT

City of Holstein is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

9. RELATED PARTY TRANSACTIONS

The City had business transactions between the City and city officials totaling \$23,526 during the year ended June 30, 2007.

CITY OF HOLSTEIN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

10. DEFICIT BALANCE

The Water Proprietary Fund had a deficit balance of \$10,334 at June 30, 2007.

11. INTERGOVERNMENTAL AGREEMENT

The City entered into an agreement with Ida County to provide for the disposal of solid waste.

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. The costs to the County for compliance with these requirements have been estimated at \$500,278 according to the County's latest audit report available which was for the year ended June 30, 2007.

The County has begun to accumulate resources to fund these costs and, at June 30, 2007, assets of \$576,795 are restricted for these purposes.

12. ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2007. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

13. SUBSEQUENT EVENT

The City has issued \$800,000 of general obligation corporate purpose bonds dated January 1, 2008 to finance the construction/improvement of the City's street, water, storm sewer, and sanitary sewer systems.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOLSTEIN
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

| | Governmental Funds Actual | Proprietary Funds Actual | Total | Budgeted Original | Amounts Final | Final to Total Variance |
|------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------|--------------|----------------------|------------------|----------------------------------|
| Receipts: | | | | | | |
| Property tax | \$ 388,713 | \$ - | \$ 388,713 | \$ 386,328 | \$ 386,328 | \$ 2,385 |
| Tax increment financing collections | 25,784 | - | 25,784 | 34,730 | 34,730 | (8,946) |
| Other city tax | 17,058 | - | 17,058 | 11,105 | 11,105 | 5,953 |
| Licenses and permits | 2,336 | - | 2,336 | 4,200 | 4,200 | (1,864) |
| Use of money and property | 33,952 | 8,122 | 42,074 | 43,930 | 43,930 | (1,856) |
| Intergovernmental | 136,626 | - | 136,626 | 123,000 | 123,000 | 13,626 |
| Charges for service | 281,291 | 302,377 | 583,668 | 613,143 | 643,143 | (59,475) |
| Special assessments | 2,649 | - | 2,649 | - | 2,900 | (251) |
| Miscellaneous | 140,995 | 5,025 | 146,020 | - | 12,500 | 133,520 |
| Total receipts | 1,029,404 | 315,524 | 1,344,928 | 1,216,436 | 1,261,836 | 83,092 |
| Disbursements: | | | | | | |
| Public safety | 185,897 | - | 185,897 | 228,447 | 228,447 | 42,550 |
| Public works | 321,325 | - | 321,325 | 312,310 | 312,310 | (9,015) |
| Health and social services | - | - | - | 22,500 | 24,500 | 24,500 |
| Culture and recreation | 237,862 | - | 237,862 | 193,427 | 200,427 | (37,435) |
| Community and economic development | 410,687 | - | 410,687 | - | 410,000 | (687) |
| General government | 83,641 | - | 83,641 | 99,188 | 110,789 | 27,148 |
| Debt service | 193,991 | - | 193,991 | 179,755 | 194,132 | 141 |
| Capital projects | 3,850 | - | 3,850 | - | 3,850 | - |
| Business type activities | - | 284,020 | 284,020 | 378,463 | 378,463 | 94,443 |
| Total disbursements | 1,437,253 | 284,020 | 1,721,273 | 1,414,090 | 1,862,918 | 141,645 |
| Excess (deficiency) of receipts over disbursements | (407,849) | 31,504 | (376,345) | (197,654) | (601,082) | 224,737 |
| Other financing sources, net | 476,836 | (106,836) | 370,000 | - | 415,002 | (45,002) |
| Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses | 68,987 | (75,332) | (6,345) | (197,654) | (186,080) | 179,735 |
| Balances, beginning of year | 1,057,790 | 177,357 | 1,235,147 | 945,447 | 945,447 | 289,700 |
| Balances, end of year | \$ 1,126,777 | \$ 102,025 | \$ 1,228,802 | \$ 747,793 | \$ 759,367 | \$ 469,435 |

See accompanying independent auditor's report.

CITY OF HOLSTEIN
NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION - BUDGETARY REPORTING
JUNE 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$448,828. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public works, culture and recreation, and community and economic development functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF HOLSTEIN
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Schedule 1

| | Special Revenue | | | | |
|------------------------------------------|----------------------|-------------------|----------------|---------------------|------------|
| | Employee Benefits | Emergency Fund | Geber Trust | Centennial Trust | Total |
| Receipts: | | | | | |
| Property tax | \$ 63,597 | \$ 7,391 | \$ - | \$ - | \$ 70,988 |
| Other city tax | 1,824 | 212 | - | - | 2,036 |
| Use of money and property | - | - | 550 | - | 550 |
| Miscellaneous | - | - | - | 48,972 | 48,972 |
| Total receipts | 65,421 | 7,603 | 550 | 48,972 | 122,546 |
| Disbursements: | | | | | |
| Public works | 17,214 | - | - | - | 17,214 |
| Culture and recreation | 21,333 | - | - | - | 21,333 |
| General government | 6,515 | - | - | - | 6,515 |
| Total disbursements | 45,062 | - | - | - | 45,062 |
| Excess of receipts over disbursements | 20,359 | 7,603 | 550 | 48,972 | 77,484 |
| Other financing sources: | | | | | |
| Transfers out | - | (38,346) | - | - | (38,346) |
| Net change in cash balances | 20,359 | (30,743) | 550 | 48,972 | 39,138 |
| Cash balances beginning of year | 41,702 | 30,743 | 19,467 | 10,810 | 102,722 |
| Cash balances end of year | \$ 62,061 | \$ - | \$ 20,017 | \$ 59,782 | \$ 141,860 |
| Cash Basis Fund Balances | | | | | |
| Unreserved: | | | | | |
| Special revenue funds | \$ 62,061 | \$ - | \$ 20,017 | \$ 59,782 | \$ 141,860 |

See accompanying independent auditor's report.

CITY OF HOLSTEIN
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2007

Schedule 2

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> | <u>Balance Beginning Of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End Of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|---------------------------|--------------------------|---------------------------|-----------------------------------------|------------------------------------------|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|----------------------------------------|
| General obligation notes: | | | | | | | | | |
| Corporate purpose | June 1, 2000 | 5.15-5.55% | \$ 475,000 | \$ 290,000 | \$ - | \$ 40,000 | \$ 250,000 | \$ 15,300 | \$ - |
| Corporate purpose | June 1, 2003 | 2.50-3.50% | 240,000 | 180,000 | - | 25,000 | 155,000 | 5,350 | - |
| Water improvement | August 1, 2005 | 3.00-4.05% | 565,000 | 565,000 | - | - | 565,000 | 20,363 | - |
| Corporate purpose | February 15, 2007 | 7.00% | 370,000 | - | 370,000 | - | 370,000 | 7,898 | - |
| Total | | | | <u>\$1,035,000</u> | <u>\$ 370,000</u> | <u>\$ 65,000</u> | <u>\$ 1,340,000</u> | <u>\$ 48,911</u> | <u>\$ -</u> |
| Revenue bonds: | | | | | | | | | |
| Sewer | May 5, 1997 | | \$ 1,036,000 | \$ 720,000 | \$ - | \$ 50,000 | \$ 670,000 | \$ 29,120 | \$ - |

See accompanying independent auditor's report.

CITY OF HOLSTEIN
NOTE AND BOND MATURITIES
JUNE 30, 2007

Schedule 3

General Obligation Notes

| Year Ending June 30, | Corporate Purpose Issued June 1, 2000 | | Corporate Purpose Issued June 1, 2003 | | Water Improvement Issued August 1, 2005 | | Corporate Purpose Issued February 15, 2007 | | Total |
|----------------------------|------------------------------------------|-------------------|------------------------------------------|-------------------|--------------------------------------------|-------------------|-----------------------------------------------|-------------------|--------------------|
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| 2008 | 5.15% | \$ 40,000 | 2.50% | \$ 25,000 | 3.00% | \$ 45,000 | 7.00% | \$ 33,000 | \$ 143,000 |
| 2009 | 5.20 | 40,000 | 2.75 | 25,000 | 3.15 | 45,000 | 7.00 | 34,000 | 144,000 |
| 2010 | 5.25 | 40,000 | 3.10 | 25,000 | 3.25 | 45,000 | 7.00 | 35,000 | 145,000 |
| 2011 | 5.30 | 25,000 | 3.25 | 25,000 | 3.35 | 45,000 | 7.00 | 36,000 | 131,000 |
| 2012 | 5.35 | 25,000 | 3.40 | 25,000 | 3.45 | 50,000 | 7.00 | 37,000 | 137,000 |
| 2013 | 5.40 | 25,000 | 3.50 | 30,000 | 3.60 | 50,000 | 7.00 | 37,000 | 142,000 |
| 2014 | 5.45 | 25,000 | - | - | 3.70 | 55,000 | 7.00 | 38,000 | 118,000 |
| 2015 | 5.55 | 30,000 | - | - | 3.80 | 55,000 | 7.00 | 39,000 | 124,000 |
| 2016 | - | - | - | - | 3.90 | 55,000 | 7.00 | 40,000 | 95,000 |
| 2017 | - | - | - | - | 4.00 | 60,000 | 7.00 | 41,000 | 101,000 |
| 2018 | - | - | - | - | 4.05 | 60,000 | 7.00 | - | 60,000 |
| | | <u>\$ 250,000</u> | | <u>\$ 155,000</u> | | <u>\$ 565,000</u> | | <u>\$ 370,000</u> | <u>\$1,340,000</u> |

Sewer Revenue Bonds
Issued May 5, 1997

| Year Ending June 30, | Interest Rates | Amount |
|----------------------------|-------------------|-------------------|
| 2008 | 3.0% | \$ 50,000 |
| 2009 | 3.00 | 50,000 |
| 2010 | 3.00 | 55,000 |
| 2011 | 3.00 | 55,000 |
| 2012 | 3.00 | 60,000 |
| 2013 | 3.00 | 60,000 |
| 2014 | 3.00 | 65,000 |
| 2015 | 3.00 | 65,000 |
| 2016 | 3.00 | 70,000 |
| 2017 | 3.00 | 70,000 |
| 2018 | 3.00 | 70,000 |
| | | <u>\$ 670,000</u> |

See accompanying independent auditor's report.

HUNZELMAN, PUTZIER & CO., PLC
CERTIFIED PUBLIC ACCOUNTANTS

JEFFORY B. STARK, C.P.A.
KEITH C. GERMANN, C.P.A.
RICHARD R. MOORE, C.P.A.
WESLEY E. STILLE, C.P.A. (RETIRED)
KENNETH A. PUTZIER, C.P.A. (RETIRED)
W.J. HUNZELMAN, C.P.A. 1921-1997

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Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council
Holstein, Iowa

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Holstein, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 24, 2008. Our report expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Holstein's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of City of Holstein's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by City of Holstein's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described in the Schedule of Findings, we believe items I-A-07, I-B-07, I-C-07, I-D-07, and I-E-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Holstein's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Holstein's operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Holstein's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit City of Holstein's responses and, accordingly we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of City of Holstein, and other parties to whom City of Holstein may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Holstein during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

June 24, 2008



CITY OF HOLSTEIN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES

- I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that bank deposits, opening mail, recording receipts and disbursements, checks and payroll preparation, and bank reconciliations are all handled by two individuals.

Recommendation - We realize that with a limited number of employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will review its operating procedures as regards internal controls and will implement more effective policies and procedures as opportunities present themselves.

Conclusion - Response accepted.

- I-B-07 Documentation Supporting Expenses - There were some charges on credit cards which were not supported by proper documentation. As a result we could not determine if these expenses were a proper expenditure of City funds.

Recommendation - The City should require that all original documents supporting an expense be attached and approved before payment is made.

Response - The City shall make every effort to obtain supporting documentation for all credit card charges.

Conclusion - Response accepted.

- I-C-07 Library and Fire Department Funds - The Library and Fire Department currently maintain separate bank accounts which are not included in the City's financial records. These are not separate non-profit corporation, but are departments which were established by City ordinance. Chapter 384.20 of the Iowa Code states in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee or other person, and which show the receipt, use, and disposition of all city property. Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - These funds should be included in the City's financial records and any disbursements should be budgeted and properly supported by adequate documentation of public purpose.

CITY OF HOLSTEIN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the Financial Statements: (Continued)

I-C-07 Fire Department Funds - (Continued)

Response - The City will ensure that these funds are included in the City's financial records and that expenditures from these funds will be budgeted and properly documented.

Conclusion - Response accepted.

I-D-07 Financial Reporting - We noted that while management is capable of preparing accurate financial statements that provide information sufficient for City council members to make management decisions, reporting financial data reliably in accordance with an other comprehensive basis of accounting (OCBOA) requires management to possess sufficient knowledge and expertise to select and apply accounting principles and prepare year-end financial statements, including footnote disclosures. Management presently lacks the qualifications and training to appropriately fulfill these responsibilities, which is a common situation in small entities.

Recommendation - Obtaining additional knowledge through reading relevant accounting literature and attending local professional education courses should help management significantly improve in the ability to prepare and take responsibility for reliable OCBOA financial statements.

Response - Management will continue to attend classes, seminars and other educational opportunities in order to enhance capacity to prepare reliable OCBOA financial statements.

Conclusion - Response accepted.

I-E-07 Reconciliation of Utility Billings, Collections, and Delinquencies - Utility billings, collections, and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections, and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response - Utility billings, collections and delinquent accounts will be reconciled for each billing period throughout the year as recommended.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

CITY OF HOLSTEIN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Statutory Reporting

- II-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, exceeded the amount budgeted in the public works, culture and recreation, and community and economic development functions. Chapter 384.20 of the Code of Iowa states, in part, "Public moneys may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In future, the City will amend the fiscal year budget before making expenditures in each functional area in accordance with Chapter 384.18 of the Iowa Code.

Conclusion - Response accepted.

- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-D-07 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title, and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|---------------------------------------------------------------------------|------------------------------------|---------------|
| Dennis Breyfogle, Council Member, owner of A-1 Plumbing and Heating | Repairs, parts, supplies | \$ 1,097 |
| Fred Lukins, Council Member owner of Lukins Construction | Labor and repair | \$22,075 |
| Marlo Schoer, Deputy Clerk/Treasurer husband owns S&S Sales | Supplies and parts | \$ 354 |

In accordance with chapter 362.5(11) of the Code of Iowa, the transactions with Council Member Breyfogle and deputy Clerk/Treasurer Schoer do not appear to represent conflicts of interest since the cumulative amounts were less than \$2,500 during the fiscal year. The transactions with Council Member Lukins may represent conflict of interest since the cumulative amount was greater than \$2,500.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - The City shall consult legal counsel as to the disposition of this matter as recommended.

Conclusion - Response accepted.

CITY OF HOLSTEIN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Statutory Reporting - (Continued)

II-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, the minutes were not signed, and although minutes of Council proceedings were published, they were not always published within fifteen days, did not include all disbursements, and did not include a summary of receipts and disbursements as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should insure that the minutes are signed and published as required.

Response - The City will ensure that all minutes are signed and minutes and disbursements published as required by Iowa Code 372.13(6).

Conclusion - Response accepted.

II-G-07 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-07 Revenue Bonds - The City has not established the sewer sinking and reserve accounts as required by the bond resolution.

Recommendation - The City should establish the sewer sinking and reserve accounts and make the required transfers.

Response - The City shall create Sinking and Reserve Funds as required by the bond resolution for the SRF loan and transfer the required amounts into these funds.

Conclusion - Response accepted.

II-I-07 Financial Condition - The Water Proprietary Fund had a deficit balance at June 30, 2007 of \$10,334.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return the fund to a sound financial condition.

Response - The City will transfer amounts in order to eliminate the deficit in this fund.

Conclusion - Response accepted.

CITY OF HOLSTEIN
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Statutory Reporting - (Continued)

II-J-07 Form 1099 - The Internal Revenue Service requires that Form 1099 be prepared when disbursements for services to a non-corporate entity exceed \$600 in a calendar year. The City is currently not issuing 1099's.

Recommendation - The City should monitor yearly disbursements by vendor and issue a Form 1099 if required.

Response - The City shall monitor disbursements to non-corporate entities and issue 1099s if required by IRS.

Conclusion - Response accepted.